



U.S. Department of
the Treasury

INTERNAL REVENUE SERVICE

BUDGET IN BRIEF

FISCAL YEAR 2020

Internal Revenue Service

Program Summary by Budget Activity

Dollars in Thousands

Budget Activity	FY 2018 Enacted ¹	FY 2019 Annualized CR ²	FY 2020 Request ³	FY 2019 TO FY 2020 \$ Change	% Change
Taxpayer Services	\$2,512,554	\$2,571,554	\$2,402,000	(\$169,554)	-6.59%
Pre-filing Taxpayer Assistance and Education	640,379	634,019	634,762	743	0.12%
Filing and Account Services	1,872,175	1,937,535	1,767,238	(170,297)	-8.79%
Enforcement	\$4,627,000	\$4,672,000	\$4,705,368	\$33,368	0.71%
Investigations	581,680	597,658	614,046	16,388	2.74%
Exam and Collections	3,875,098	3,894,129	3,923,583	29,454	0.76%
Regulatory	170,222	180,213	167,739	(12,474)	-6.92%
Operations Support	\$4,181,000	\$3,834,000	\$4,075,021	\$241,021	6.29%
Infrastructure	870,360	858,932	853,738	(5,194)	-0.60%
Shared Services and Support	920,283	942,568	953,686	11,118	1.18%
Information Services	2,390,357	2,032,500	2,267,597	235,097	11.57%
Business Systems Modernization	\$110,000	\$110,000	\$290,000	\$180,000	163.64%
Subtotal Internal Revenue Service	\$11,430,554	\$11,187,554	\$11,472,389	\$284,835	2.55%
Reimbursables	171,140	116,551	122,379	5,828	5.00%
Offsetting Collections - Non Reimbursables	26,069	37,719	39,605	1,886	5.00%
User Fees	283,267	563,053	460,900	36,857	8.69%
Recovery from Prior Years	13,233	17,994	18,905	911	5.06%
Unobligated Balances from Prior Years	360,031	357,637	153,567	(343,080)	-69.08%
Transfers In/Out	(4,188)				
Resources from Other Accounts					
Total Program Operating Level	\$12,280,106	\$12,280,508	\$12,267,745	(\$12,763)	-0.10%
Direct FTE	73,268	73,584	71,945	(1,639)	-2.23%
Reimbursable FTE	795	521	521		
Offsetting Collections - Non Reimbursables					
User Fee FTE	14	60	71	11	18.33%
Recovery from Prior Years					
Unobligated Balances from Prior Years	236	289	100	(189)	-65.40%
Resources from Other Accounts					
Total FTE	74,313	74,454	72,637	(1,817)	-2.44%

¹FY 2018 Enacted includes \$320 million in Section 113 Administrative Provision funding in the following amounts: \$19 million in Taxpayer Services, \$10 million in Enforcement, and \$291 million in Operations Support. FY 2018 Enacted also includes an interappropriation transfer of \$256 million to Operations Support (\$13 million from Taxpayer Services and \$243 million from Enforcement), and inter-BAC transfer in accordance with Section 608 of Public Law 115-141. FY 2018 full-time equivalent (FTE) are actuals and reconcile to the final FY 2018 column in the FY 2020 President's Appendix. Other Resources are actuals.

²FY 2019 Annualized Continuing Resolution (CR) includes a \$200 million interappropriation transfer from Enforcement to Operations Support to cover anticipated operations and maintenance requirements in FY 2019. FY 2019 Annualized CR also includes \$77 million (\$65 million in Taxpayer Services and \$12 million in Enforcement) for the Section 112 Administrative Provision to implement requirements under the Tax Cuts and Jobs Act (Public Law 115-97). \$320 million is automatically available in a full year continuing resolution scenario under IRS Administrative Provision Section 113. Of this amount, \$243 million is excluded for illustrative purposes consistent with the requirements identified for implementing the Tax Cuts and Jobs Act and the FY 2019 Section 112 / Tax Reform Spending Plan transmitted to Congress on February 28, 2019. Additional information and a full accounting of these funds can be found in the FY 2020 President's Budget Appendix.

³FY 2020 Request column here excludes the proposed \$362 million discretionary program integrity investment: \$200 million for Enforcement and \$162 million for Operations Support. More information about the program integrity cap adjustment can be found in Section 4.1 of the IRS FY 2020 Congressional Justification.

Summary

The IRS FY 2020 President's Budget request is \$11.472 billion, \$285 million or 2.55 percent more than the FY 2019 Annualized Continuing Resolution (CR) level of \$11.188 billion (adjusted for tax reform funding). The base request provides funding to carry out the IRS mission and invest in high-priority programs that will allow the IRS to administer tax law more efficient and effectively.

The request includes an increase of \$344 million for four high-priority areas: modernization, cybersecurity and identity theft, infrastructure, and data analytics. The investment in modernization provides a down payment on a multi-year plan to modernize IRS systems and operations and deliver a customer experience that is comparable to the best financial institutions. Modernization and the other priority programs will allow the IRS to improve taxpayer service and compliance, protect the trillions of dollars in revenue that taxpayers pay voluntarily each year into the Treasury, and secure taxpayer data and information.

The Budget will allow the IRS to:

- Help all taxpayers meet their tax obligations by simplifying the process of filing and amending returns and submitting payments;
- Protect the integrity of the tax system;
- Partner with key stakeholders in the state and local tax administration, tax preparation, and international communities;
- Cultivate and retain a well-equipped, diverse, flexible, and engaged workforce;
- Improve data access, usability, and analytics to inform decision making; and
- Drive increased agility, efficiency, effectiveness, and security in operations.

The IRS Strategic Plan FY 2018–2022 guides resource decisions, programs, and operations. The Plan aligns with the goals and objectives in Treasury's strategic plan, including increasing U.S. economic growth by administering tax laws to help taxpayers meet their obligations while protecting the integrity of the tax system; transforming government-wide financial stewardship by increasing access to and usage of data; and achieving operational excellence.

In FY 2018, the IRS delivered a successful filing season that opened on January 29, 2018. During the 2018 filing season, the IRS:

- Received about 137 million individual tax returns and issued more than 95 million refunds totaling \$265 billion with an average individual refund of \$2,780. Almost 91 percent of these individual returns were filed electronically;
- Achieved an 80 percent filing season level of service (LOS), the relative success rate of taxpayers calling the toll-free line for assistance, an increase of about one percent over the 2017 filing season;
- Answered more than 10 million calls and addressed another 17 million calls through automated systems;
- Served nearly five million taxpayers, almost three million face-to-face assistor contacts, and two million taxpayers who had issues resolved over the phone when calling for an appointment;

- Received 387 million visitors to the IRS.gov website with 265 million taxpayers checking the *Where's My Refund?* tool for the status of their refund. This represents a 24 percent increase in the use of IRS.gov and an eight percent increase in *Where's My Refund?* compared to last filing season;
- Received about 31 million business returns, an increase of one percent over the 2017 filing season. Approximately 20.4 million were filed electronically, an increase of six percent from 2017;
- Leveraged filtering capabilities and the *PATH Act* refund hold to automate and expand the selection of potentially fraudulent returns, holding 9.4 million returns with \$46.9 billion in refunds and identifying 340,000 returns with possible overstated income or withholding issues; and
- Launched the Field Assistance Scheduling Tool to schedule appointments for taxpayers in all Taxpayer Assistance Centers (TAC) and Virtual Service Delivery sites.

Information Technology Modernization

The Budget includes \$300 million for the IRS Integrated Modernization Business Plan (“the plan”), including \$290 million from the Business Systems Modernization appropriation and at least \$10 million from IRS user fees. The plan – validated by independent assessors – calls for approximately \$2.1 to \$2.5 billion over six years. Modernizing is necessary to maintain the integrity of the nation’s tax system, collect trillions of dollars, and keep up with economic and population growth. Additional information will be included in the forthcoming IRS Integrated Modernization Business Plan.

IRS FY 2020 Budget Highlights

Dollars in Thousands

Bureau: Internal Revenue Service	TAXPAYER SERVICES		ENFORCEMENT		OPERATIONS SUPPORT		BSM		TOTAL	
Summary of FY 2020 Request	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE
FY 2019 Annualized CR Level (Pre-IAT and TCJ Adjustments)	\$2,506,554	27,947	\$4,860,000	35,327	\$3,634,000	10,340	\$110,000	361	\$11,110,554	73,975
Planned Interappropriation Transfer			(200,000)	(1,346)	200,000					(1,346)
Section 112 Administrative Provision	65,000	887	12,000	68					77,000	955
FY 2019 Annualized CR Level	\$2,571,554	28,834	\$4,672,000	34,049	\$3,834,000	10,340	\$110,000	361	\$11,187,554	73,584
Changes to Base:										
Other Adjustments	(\$101,636)	(1,192)			\$101,636	163				(1,029)
Offset to O&M for Critical IT Systems	(101,636)	(1,192)			\$101,636	163				(1,029)
Maintaining Current Levels (MCLs)	\$3,161		\$6,249		\$41,155				\$50,565	
Non-Pay Inflation Adjustment (2.0%)	3,161		6,249		41,155				50,565	
Efficiency/Savings	(\$71,079)	(1,003)	(\$13,717)	(68)	(\$24,804)				(\$109,600)	(1,071)
Increase e-File Savings	(6,079)	(116)			(104)				(6,183)	(116)
Space Optimization					(24,700)				(24,700)	
Reduce Contractual Services			(1,717)						(1,717)	
Non-Recur for Section 112 Tax Reform Funding	(65,000)	(887)	(12,000)	(68)					(77,000)	(955)
Subtotal FY 2020 Changes to Base	(\$169,554)	(2,195)	(\$7,468)	(68)	\$117,987	163			(\$59,035)	(2,100)
New FY 2020 Current Services	\$2,402,000	26,639	\$4,664,532	33,981	\$3,951,987	10,503	\$110,000	361	\$11,128,519	71,484
Program Changes:										
Program Increases:			\$40,836	201	\$123,034	180	\$180,000	80	\$343,870	461
IRS Technology Modernization Plan							180,000	80	180,000	80
Data Analytics to Enhance Compliance			28,470	174	5,363	16			33,833	190
Prevent Identity Theft			12,366	27	10,122	2			22,488	29
O&M of Prior-year Enterprise-wide Cybersecurity Investments					6,744				6,744	
O&M of Critical Systems					100,805	162			100,805	162
Subtotal FY 2020 Program Changes			\$40,836	201	\$123,034	180	\$180,000	80	\$343,870	461
Total FY 2020 Request¹	\$2,402,000	26,639	\$4,705,368	34,182	\$4,075,021	10,683	\$290,000	441	\$11,472,389	71,945

¹Total FY 2020 Request excludes the proposed \$362 million discretionary program integrity investment: \$200 million for Enforcement and \$162 million for Operations Support. More information about the program integrity cap adjustment can be found in Section 4.1 of the IRS FY 2020 Congressional Justification.

FY 2020 Budget Adjustments

Resource Adjustments

The FY 2019 Annualized Continuing Resolution (CR) level of \$11.188 billion (adjusted for tax reform) includes a \$200 million inter-appropriation transfer from Enforcement to Operations Support to cover anticipated operations and maintenance requirements in FY 2019. The IRS will submit a formal notice to Congress this spring. The FY 2019 Annualized CR level includes \$77 million of the \$320 million appropriated for tax reform implementation.

Adjustments to Request

Other Adjustments

Offset to Support O&M of Critical Systems -\$101,636,000 / -1,192 FTE

The request realigns \$102 million from Taxpayer Services account to the Operations Support account to support mission-critical systems that benefit operational programs.

Maintaining Current Levels (MCLs)

Non-Pay +\$50,565,000 / 0 FTE

Funds are requested for non-labor inflationary cost increases for items such as travel, contracts, rent, supplies, and equipment.

Efficiency/Savings

Increase e-File Savings -\$6,183,000 / -116 FTE

The IRS projects that taxpayers will file 1,870,800 fewer paper returns (1,256,100 individual and 614,700 business returns). As a result, the IRS will need 116 fewer FTEs in submission processing, generating a savings of \$6.2 million.

Space Optimization -\$24,700,000 / 0 FTE

The IRS will reduce expenditures on rent and improve usage of office space across the country. In FY 2020, the IRS is estimating space optimization savings of \$24.7 million. Since 2013, the IRS has released 3.2 million square feet, closing 106 buildings and reducing rent costs by more than 10 percent to \$578 million in FY 2020.

Reduce Contractual Services -\$1,717,000 / 0 FTE

The IRS will generate savings by improving the effectiveness of existing acquisitions practices to reduce the cost of contracts.

Non-Recur Administrative Provision Section 112 Tax Reform -\$77,000,000 / -955 FTE

This results from the non-recurrence of one-time funding provided by the Section 112 Administrative Provision for tax reform implementation.

Program Increases

IRS Technology Modernization Plan +\$180,000,000 / +80 FTE

The Budget includes \$300 million for the IRS Integrated Modernization Plan in FY 2020, including \$290 million in discretionary appropriations and at least \$10 million from IRS user fees.

Data Analytics to Enhance Compliance +\$33,833,000 / +190 FTE

This investment in advanced data analytics will improve the IRS's risk identification capabilities and reduce the need for manual or limited risk assessments. The IRS will focus on identifying compliance risks. Recent changes in tax law have reduced the accuracy of traditional "backward looking" risk identification tools, and this investment will help the IRS identify new risks. This investment will result in an additional 1,032 large business return examination closures and increase the examination coverage rate by 0.3 percent by FY 2022.

Prevent Identity Theft +\$22,488,000 / +29 FTE

This investment will be used to hire four Attorneys, 11 Special Agents, and 14 Analysts to conduct more criminal investigations related to identity theft. As a result, the IRS should complete about 250 additional criminal investigations between FY 2020 and FY 2025. The investment also funds contractor support to classify fraud cases, facilitate sharing of anonymized data, enhance fraud intelligence, and operate critical databases to support identity authentication.

***Operations and Maintenance (O&M) of Prior-year Enterprise-wide Cybersecurity Investments
+\$6,744,000 / 0 FTE***

The request includes an increase of \$6.7 million to support the O&M of prior year Cybersecurity Enhancement Account (CEA) investments. This increase represents the IRS's portion of the Departmental O&M cost of \$17.5 million.

O&M of Critical Systems +\$100,805,000 / +162 FTE

These funds will be used to address the operations and maintenance of critical filing season systems and technology operations across the IRS.

Legislative Proposals

The FY 2020 President's Budget request includes tax administration legislative proposals.

Lower the threshold from 250 to 10 for mandatory electronic reporting of W-2 data by employers: Providing the IRS with timely and accurate *Wage and Tax Statement (W-2)* information reported by employers facilitates pre-refund verification of wage and withholding information, which in turn reduces the issuance of questionable tax refunds through early detection of fraud and other erroneous refund claims. Extra time and resources are needed for the Social Security Administration (SSA) to process paper W-2s submitted by employers before information on paper statements can be transmitted to the IRS. Under current law, employers who file 250 or more Forms W-2 in a year must e-file these information returns, but those filing fewer than 250 Forms W-2 in a year may choose to file on paper. To enhance pre-refund W-2 checks, the Budget proposes increasing the number of employers subject to mandatory electronic reporting of W-2 data. The proposal would reduce the W-2 e-file threshold from 250 to 10 Forms W-2.

Require a social security number (SSN) that is valid for work to claim child tax credit (CTC), earned income tax credit (EITC), and credit for other dependents (ODTC): The Administration proposes requiring an SSN that is valid for work to claim the EITC, CTC (both the refundable and non-refundable portion), and/or the ODTC for the taxable year. For all credits, this requirement would apply to taxpayers (including both the primary and secondary filer on a joint return) and all qualifying children or dependents. Under current law, taxpayers who do not have an SSN that is valid for work may claim the CTC if the qualifying child for whom the credit is claimed has a valid SSN. Furthermore, the ODTC, created by the *Tax Cuts and Jobs Act*, allows taxpayers whose dependents do not meet the requirements of the CTC, including the SSN requirement, to claim this non-refundable credit. This proposal would ensure that only individuals who are authorized to work in the United States could claim these credits by extending the SSN requirement for qualifying children to parents on the tax form for the CTC and instituting an SSN requirement for the ODTC. While this SSN requirement is already current law for the EITC, this proposal also would close an administrative gap to strengthen enforcement of the provision.

Provide the IRS with greater flexibility to address correctable errors: The Budget would expand the IRS authority to correct errors on taxpayer returns. Current statute only allows the IRS to correct errors on returns in certain limited instances, such as basic math errors or the failure to include the appropriate social security number or taxpayer identification number.

This proposal would expand the instances in which the IRS could correct a taxpayer's return including cases where: (1) the information provided by the taxpayer does not match the information contained in Government databases or Form W-2, or from other third party databases as the Secretary determines by regulation; (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or (3) the taxpayer has failed to include with his or her return certain documentation that is required to be included on or attached to the return. This proposal would make it easier for IRS to correct clear taxpayer errors, directly improving tax compliance and reducing EITC and other improper payments and freeing IRS resources for other enforcement activities.

Increase Oversight of Paid Tax Return Preparers: Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. Incompetent and dishonest tax return preparers increase collection costs, reduce revenues, disadvantage taxpayers by potentially subjecting them to penalties and interest because of incorrect returns, and undermine confidence in the tax system. To promote high quality services from paid tax return preparers, the proposal would explicitly provide that the Secretary of the Treasury has the authority to regulate all paid tax return preparers.

Improve clarity in worker classification and information reporting requirements: The Budget proposes to: (1) establish a new safe harbor that allows a service recipient to classify a service provider as an independent contractor and requires withholding of individual income taxes to this independent contractor at a rate of five percent on the first \$20,000 of payments; and (2) raises the reporting threshold for payments to all independent contractors from \$600 to \$1,000, and reduces the reporting threshold for third-party settlement organizations from \$20,000 and 200 transactions per payee to \$1,000 without regard to the number of transactions. In addition, Form 1099-K would be required to be filed with the IRS by January 31 of the year following the year for which the information is being reported. The proposal increases clarity in the tax code, reduces costly litigation, and improves tax compliance.

Except Certain Federal Student Aid (FSA) Programs from Section 6103 Restrictions: Section 6103 of the *Internal Revenue Code of 1986* (26 U.S.C. 6103) (IRC) provides that tax returns and tax return information are confidential and cannot be disclosed or used unless permitted under the IRC. The Administration proposes to authorize the IRS to disclose tax return information directly to the U.S. Department of Education for administering programs authorized by Title IV of the *Higher Education Act of 1965*. The section 6103 exception is expected to improve administration of student aid programs, enhance program cost estimation, increase servicing efficiency, and reduce improper payments.

Program Integrity Cap Adjustment: In addition to the base appropriations request, the Budget proposes a \$362 million discretionary program integrity cap adjustment in FY 2020 to fund new and continuing investments in the IRS's tax enforcement program. The Budget proposes \$200 million for the Enforcement account and \$162 million for the Operations Support account. It also proposes additional adjustments in future years to fund new initiatives and inflation. The proposed investments will generate about \$47.1 billion in additional revenue over 10 years and would cost about \$14.5 billion for a net revenue of \$32.6 billion.

Streamlined Critical Pay (SCP): The Budget proposes to reinstate *Streamlined Critical Pay* (SCP) authority through September 30, 2023. The authority to make new SCP appointments expired September 30, 2013. As a result of the expired authority, the IRS continues to face challenges recruiting top-level talent, especially IT professionals who help protect taxpayer data from cyber-attacks and who assist with modernizing the IRS's IT infrastructure. The Office of Personnel Management existing government-wide *Critical Position Pay* (CPP) authority is not a sufficient alternative to SCP.

IRS Performance Highlights

Budget Activity	Performance Measures	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2018 Target	FY 2019 Target	FY 2020 Target
Filing and Account Services	Customer Service Representative Level of Service (LOS) ¹	53.4%	77.1%	75.9%	75.0%	63.0%	68.0%
Exam and Collections	Examination Coverage - Individual	0.7%	0.6%	0.6%	0.6%	0.5%	0.5%
Investigations	Criminal Investigations Completed	3,721	3,089	3,051	3,000	2,800	2,700
Investigations	Conviction Rate	92.1%	91.5%	91.7%	92.0%	92.0%	92.0%
Information Services	Percentage of Aged Hardware ²	52.2%	52.3%	45.5%	53.1%	43.8%	39.0%

¹The FY 2019 level of service target was calculated at the FY 2019 Enacted level.
²This is a new budget level metric; the measure definition changed in FY 2018; and, prior-year numbers are reported consistent with the new definition.

Description of Performance

In FY 2018, the IRS continued to provide quality service to taxpayers and to enforce the laws with integrity and fairness. The IRS continued to deliver improvements in key areas, including international, tax exempt, refund fraud, and identity theft.

Taxpayer Services

The IRS strives to deliver high quality and timely service to taxpayers and stakeholders and help them understand and meet their tax obligations. The IRS:

- Achieved an 87.2 percent individual e-file rate and a 55.6 percent business e-file rate;
- Delivered a fiscal year telephone LOS of 75.9 percent;
- Answered about 25.3 million calls and addressed another 17 million calls through automated systems; and
- Answered 96.1 percent of account questions over the telephone correctly.

The IRS continues to improve and expand its outreach and educational services through partnerships with state taxing authorities, volunteer groups, and other organizations. *Volunteer Income Tax Assistance* (VITA) and *Tax Counseling for the Elderly* (TCE) sites provided free tax assistance for the elderly, disabled, and limited English proficient individuals and families.

Enforcement

In FY 2018, the IRS collected \$59.4 billion through enforcement programs, a return on investment (ROI) of about \$5.3 to \$1 for all appropriations. This number is likely understated, since the ROI estimate does not include the revenue effect of the indirect deterrence value of IRS enforcement programs.

The IRS Criminal Investigation (CI) program investigates potential criminal violations of the Internal Revenue Code and related financial crimes, such as money laundering, currency violations, tax-related identity theft fraud, and terrorist financing that adversely affect tax administration. In FY 2018 CI completed 3,051 criminal investigations, achieved 1,879 convictions with a rate of 91.7 percent, and achieved a Department of Justice case acceptance rate of 93.1 percent and a U.S. Attorney case acceptance rate of 90.1 percent, which compares favorably with other Federal law enforcement agencies.

The Examination program provides taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness. The performance goals that the IRS uses to gauge the Examination program's performance include *Individual Exam Coverage* which met the 0.6 percent target. There were about 22,000 fewer individual audits completed, a 2.5 percent decrease compared to FY 2017. In FY 2018, *Business Examination Coverage* was 2.2 percent, below the target of 2.4 percent.

The Tax Exempt and Government Entities (TE/GE) program also plays a crucial role in compliance. Determination Case Closures includes both applications for tax-exempt status for employee retirement plans and applications from various charitable entities seeking tax-exempt status. The IRS reviews applications to determine eligibility and closes them upon approval or disapproval. In FY 2018, TE/GE closed 98,249 determination cases, exceeding the target of 94,103.

Business Systems Modernization

IRS modernization efforts continued in FY 2018. Some key accomplishments were:

- Web Apps deployed the initial component of the *Taxpayer Protection Program Identity Verification Service* (TPP ID Verify) capability enabling taxpayers to verify/confirm their identity online and establish the return filed under their Taxpayer Identification Number was fraudulent. Prior to the release of this capability, a taxpayer who was the potential victim of identity theft would receive a letter requiring him or her to call the IRS or to make an appointment to authenticate in person at a local TAC before filing a return.
- IRS transformed the look and feel of the IRS.gov website, including new landing pages, a unified design and architecture that provides a consistent user experience, and modern technology standards and practices, including a mobile friendly application.
- IRS added new features to taxpayer *Online Account*, including enabling the *Tax Records Snapshot* for secondary taxpayers, the addition of a Balance Assistance FAQ page, and updates to messaging and business logic.